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RHEBAAA/DEPT OF ENERGY WASHDC

C O N F I D E N T I A L PRAGUE 000033

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NSC FOR TRACEY MCKIBBEN

E.O. 12958: DECL: 01/15/2017
TAGS: ECON EFIN ETRD PGOV EZ ENRG
SUBJECT: CZECH REPUBLIC REQUESTS USG INTERVENTION WITH
CONOCOPHILLIPS

REF: A. 2005 PRAGUE 1402
    ¶B. WARSAW 86

Classified By: DCM Cameron Munter for reasons 1.4 B&D

¶1. (U) This is an Action Request. See para 5.

¶2. (C/NF) During a meeting January 11 with visiting EUR A/S
Fried, Czech PM Mirek Topolanek raised GOCR concerns about
the country's energy security, and particularly two
commercial transactions that he believes threaten energy
security by increasing the role of Russian interests. The
most pressing item, as reinforced at a meeting January 15
between DCM and Deputy FM Tomas Pojar together with Czech
Ambassador-at-Large for Energy Issues Vaclav Bartuska and MFA
Political Director Martin Poveijsil, concerns the planned
sale by ConocoPhillips of its shares in the Czech refinery
Ceska Rafinerska (CRC) to Russia's Lukoil. The second issue
involved the contract to supply fuel to the nuclear power
plant at Temelin (this second issue will be reported septel
after further discussions with the GOCR).

¶3. (C/NF) As reported in ref A, ConocoPhillips currently owns
16.3% of CRC. The other shareholders are Poland's PKN Orlen
with 51%, and Dutch Shell and Italy's Agip each with 16.3%.
Conoco has been talking for some time about selling its share
in CRC, and other assets in the Czech Republic (including a
small chain of gas stations). This move is apparently a part
of its larger strategic decision to sell off Central European
investments and reinvest in the Russian oil sector. The
Czech government believes this will be detrimental to Czech
energy security by increasing its dependence on Russia.

¶4. (C/NF) While existing CRC shareholders have the preemptive
right to match or beat whatever "fair price" offer is made by
an outside bidder, it is not clear who or how this "fair
price" determination is made. Czech officials fear that
given Conoco's existing investments in Lukoil, a deal will be
cooked overvaluing Conoco's shares in CRC, making it
virtually impossible for existing CRC shareholders to match
or beat the deal. PKN Orlen, which is particularly eager for
Conoco's shares, believes Lukoil is likely to offer double
the value of Conoco's share in CRC. Ambassador Bartuska
informed that a deal between ConocoPhillips and Lukoil is
expected to be announced by the end of January, giving
existing share holders 30 days to reply. (Note: Bartuska
spent most of the past week in Warsaw and apparently
consulted with his Polish counterparts on the sale; it has
been raised by the GOP with USG officials as well, ref B.)
Bartuska and Dep FM Pojar, in their January 15 meeting with
the DCM, requested that the USG to weigh in with
ConocoPhillips on its decision to sell its shares in CRC,

specifically with the goal of ensuring that the sale is not
structured in a manner that will favor Lukoil over one of the
existing CRC shareholders.

¶5. (C/NF) ACTION REQUEST: Post requests Department guidance
on how to respond to the GOCR's request for USG intervention.
 This is the first time the GOCR has requested USG assistance
with energy security issues and how we respond will set the
tone for future interactions. While the potential deal
between ConocoPhillips and Lukoil has been known for several
months, the recent oil supply cutoff resulting from the
dispute between Russia and Belarus, combined with both the
recent creation of the Ambassador-at-Large position to
overcome interagency battles and PM Topolanek's personal
attention on the issue, has prompted such rare pro-active
approach by the Czech government.
GRABER